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AZ CORP COMMISSION  
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TO: Docket Control  
FROM: Ernest G. Johnson  
Director  
Utilities Division

DATE: November 14, 2003

RE: ARIZONA WATER COMPANY, INC. - APPLICATION AN EXTENSION OF  
FOR ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO  
PROVIDE WATER SERVICE IN YAVAPAI COUNTY, ARIZONA (DOCKET  
NO. W-01445A-03-0487)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application.

EGJ:JEF:hml

Originator: Jim Fisher

Arizona Corporation Commission

DOCKETED

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Service List for: Arizona Water Company, Inc.  
Docket No. W-01445A-03-0506

Mr. Michael Whitehead  
Vice President  
Arizona Water Company  
Post Office Box 29006  
Phoenix, Arizona 85015

Mr. Robert W. Geake  
Vice President and General Counsel  
Arizona Water Company  
Post Office Box 29006  
Phoenix, Arizona 85015

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-03-0487

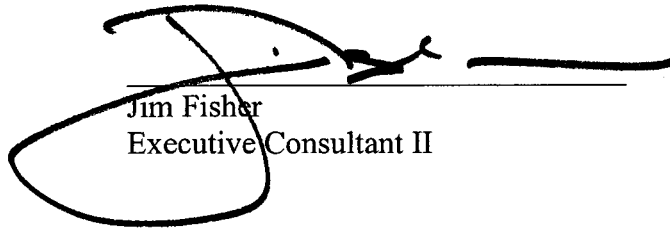
APPLICATION FOR AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE AND NESSECITY  
TO PROVIDE WATER SERVICE IN YAVAPAI COUNTY, ARIZONA

NOVEMBER 2003

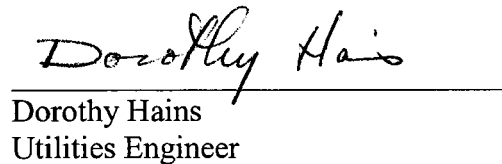
## STAFF ACKNOWLEDGEMENT

The Staff Report for Arizona Water Company, Inc. (Docket No. W-01445A-03-0487) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

Contributing Staff:



Jim Fisher  
Executive Consultant II



Dorothy Hains  
Utilities Engineer

**EXECUTIVE SUMMARY  
ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-03-0487**

On July 15, 2003, Arizona Water Company ("Arizona Water" or "Company"), a certificated Arizona public service company, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include the Orchards at Cathedral Rock, a proposed 123 single family home development south of the service territory.

Arizona Water at Sedona has fourteen wells with a total production capacity of 3,969 gallons per minute ("GPM") and 3.7 million gallons of storage capacity to serve 6,037 existing customers. Arizona Water projects that the Orchards at Cathedral Rock will add approximately 123 customers over the next 5 years. The proposed CC&N extension will not add a significant demand to the existing water system.

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis by the Company indicated that one well exceeds the new MCL standard and two other wells are at the new MCL standard.

Arizona Department of Environmental Quality ("ADEQ") regulates the water system under ADEQ Public Water System I.D. # 03-003. Based on data received from ADEQ on September 15, 2003, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Yavapai County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file a copy of the developers' Letter of Adequate Water Supply, where applicable or when required by statute, related to the proposed extension area within 365 days of the effective date of any decision in this matter.

Staff further recommends that the Commission's Decision granting this Extension of a Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet condition # 2 above within the time specified.

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## **Introduction**

On July 15, 2003, Arizona Water Company ("Arizona Water" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Yavapai County, Arizona. On August 28, 2003, Arizona Water provided Staff with additional information to support the application.

## **Background**

Arizona Water is an Arizona corporation, authorized by the ACC to provide water service within portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona. The ACC initially authorized the Company a CC&N in 1955. The Company currently serves approximately 67,000 customers.

By this application, Arizona Water is seeking to extend its current Sedona CC&N to include additional properties located adjacent to the existing southern boundary of the CC&N, south of Highway 89A. The requested service area will add approximately one and one half square miles to its existing sixteen and one half square miles of certificated area.

## **The Extension Request**

Arizona Water is seeking to extend its current CC&N to include the Orchards at Cathedral Rock, a proposed development south of the existing boundary. On May 6, 2003, BySynergy, a Delaware limited liability company requested Arizona Water to provide service to its development of a 57 acre parcel which is designed to become a 123 single family home community. The Orchards at Cathedral Rock is approximately one quarter mile south of Chavez Ranch Road and bordered by Upper Red Rock Loop Road.

## **Red Rock Water Cooperative**

Red Rock Water Cooperative ("Red Rock") serves approximately 11 customers in a small area included in the proposed extension territory. Red Rock has been previously adjudicated not a public service company by the Commission. Staff believes that this small portion of Yavapai County should not be eliminated from the proposed Arizona Water CC&N extension. Staff recommends the Red Rock system be included so that in the event Red Rock elects to interconnect with Arizona Water, at some date in the future, no further CC&N extension will be required.

## **Finance of Facilities**

Arizona Water will finance the required transmission and distribution facilities primarily with Advances in Aid of Construction. Advances in aid of construction are often in the form of

Line Extension Agreements. Line Extension Agreements generally require the developer to design, construct and install (or cause to be) all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the facilities necessary to serve the development. Upon acceptance of the facilities by the utility the developer will convey the water facilities by way of a warranty deed. The utility will refund a minimum of ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

### **Water Production Capacity**

Arizona Water at Sedona has fourteen wells with a total production capacity of 3,969 gallons per minute ("GPM") and 3.7 million gallons of storage capacity to serve 6,037 existing customers.

Arizona Water projects that the Orchards at Cathedral Rock will add approximately 123 customers over the next 5 years. The proposed CC&N extension will not add a significant demand to the existing water system.

Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five year planning period and can reasonably be expected to develop additional storage and production as required in the future.

### **Arsenic**

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23, 2006.

The most recent lab analysis by the Company indicated that one well exceeds the new MCL standard and two other wells are at the new MCL standard. Arizona Water is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 66400, (October 14, 2003) the Commission approved a cost recovery method for Arizona Water's arsenic treatment program.

### **Arizona Department of Environmental Quality Compliance**

ADEQ regulates the water system under Arizona Department of Environmental Quality ("ADEQ") Public Water System I.D. # 03-003. Based on data received from ADEQ on September 15, 2003, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

### **Arizona Department of Water Resources Compliance**

The Arizona Water Sedona system is not within any Arizona Department of Water Resources Active Management Area, and consequently is not subject to reporting and conservation rules.

Staff recommends that the Arizona Water file with the Commission a copy of the developers' Letter of Adequate Water Supply, where applicable or when required by statute.

### **ACC Compliance**

A check with the Utilities Division, Compliance Section showed no outstanding compliance issues for the Company.

### **Proposed Rates**

Arizona Water has proposed to extend service to the property at its Sedona service area tariffed rates.

### **County Franchise**

Arizona Water holds the necessary Yavapai County franchise which includes the proposed extension area.

### **Recommendations**

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Yavapai County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file a copy of the developers' Letter of Adequate Water Supply, where applicable or when required by statute, related to the proposed extension area within 365 days of the effective date of any decision in this matter.

Staff further recommends that the Commission's Decision granting this Extension of a Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet condition # 2 above within the time specified.

# MEMORANDUM

TO: Jim Fisher  
Executive Consultant II  
Utilities Division

FROM: Barb Wells *BW*  
Information Technology Specialist  
Utilities Division

THRU: Del Smith *DS*  
Engineering Supervisor  
Utilities Division

DATE: August 22, 2003

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-03-0487)**

The area requested by Arizona Water for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached). Please note, however, that there is a nonjurisdictional company, Red Rock Crossing Mobile Village, located in the requested expansion area.

Also attached is a copy of the map for your files.

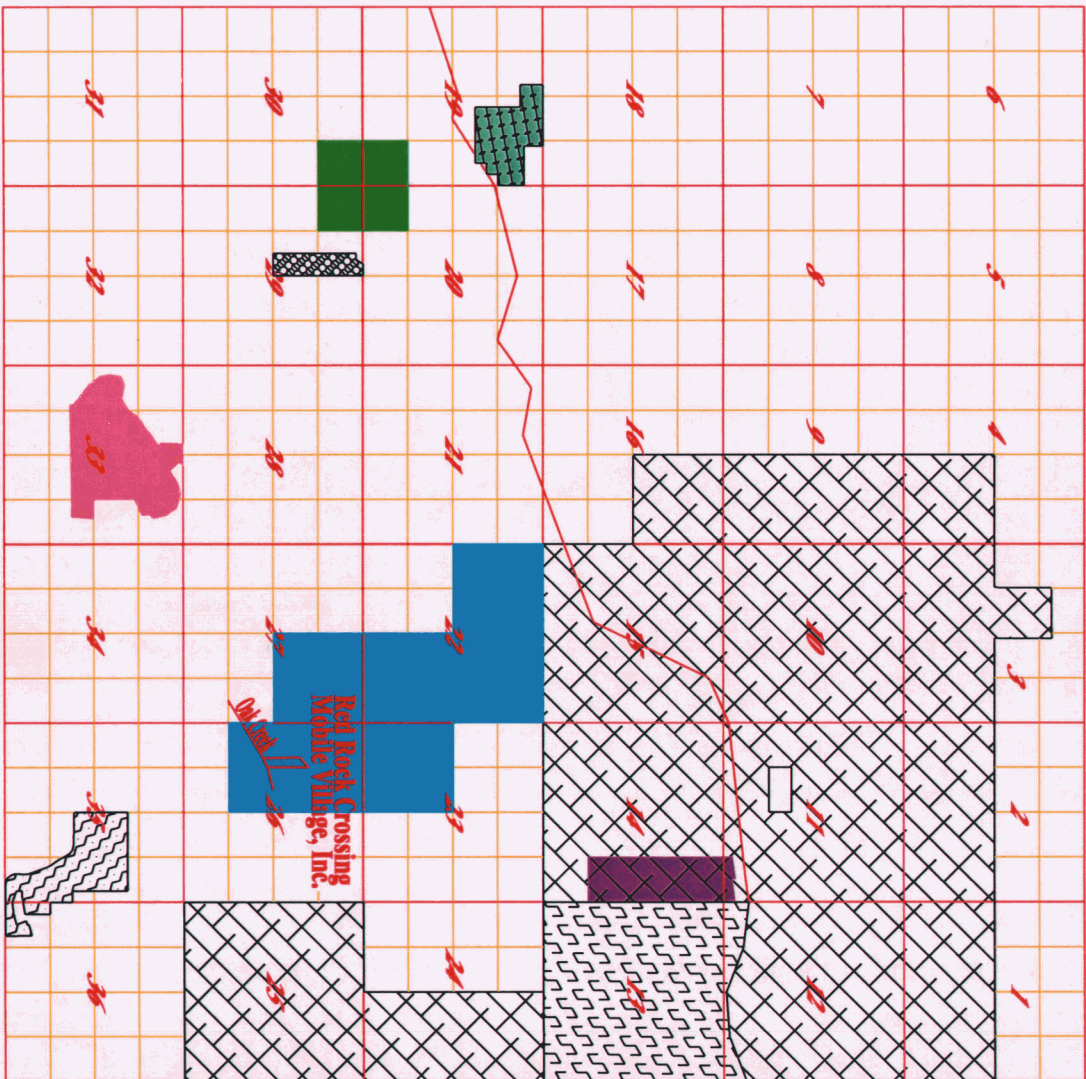
:bsw

## Attachments

cc: Docket Control  
Mr. Robert Geake  
Deb Person (Hand Carried)  
File


# COUNTY: Yavapai

## RANGE 5 East



## TOWNSHIP 17 North

 W-1445 (4)(5)

 Arizona Water Company (Sedona)

 W-2192 (2)


 Little Park Water Company

 W-2624 (1)

 Michaels Ranch Water Users' Assoc.

 W-1392 (1)

 Oak Creek Water Company No. 1

 WS-3449 (1)

 Sewer

MHC Operating Limited Partnership  
dba Sedona Venture Water Company & Sewer Company

 (1) Sewer Only

 City of Sedona (Nonjurisdictional)

 (1)

 Red Rock Crossing Mobile Village, Inc.  
(Nonjurisdictional)

 Cross Creek Ranch Water Company

Docket No. W-4131-02-615  
Application for CC&N

 Red Rock Water Cooperative, Inc.

Docket No. WS-4052-01-794  
Application for Adjudication

 Arizona Water Company

Docket No. W-1445-03-487  
Application for Extension

## EXHIBIT "1"

The North half and the Southeast quarter of Section 22; The Southwest quarter of Section 23; The Northwest quarter and the North half of the Southwest quarter of Section 26; The Northeast quarter of Section 27, all in Township 17 North, Range 5 East of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.